

**CITY OF UNDERWOOD**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2011**



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## CITY OF UNDERWOOD

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bardsley	Mayor	January 2012
Robert Dose	Mayor Pro-Tem	January 2012
Edward Freuck	Council Member	January 2014
Jim Pingel	Council Member	January 2014
Todd Erwin	Council Member	January 2012
Rhonda Johnson	Council Member	January 2012
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 8, 2011

### Independent Auditor's Report

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

**Harlan Office:**

2309 B Chatburn Ave.  
P.O. Box 551  
Harlan, IA 51537-0551

Ph. (712) 755-3366  
Fax (712) 755-3343

**Avoca Office:**

305 W. High Street  
P.O. Box 609  
Avoca, IA 51521-0609

Ph. (712) 343-2379  
Fax (712) 343-5012

[www.muxfeldt-cpa.com](http://www.muxfeldt-cpa.com)

[firm@muxfeldt-cpa.com](mailto:firm@muxfeldt-cpa.com)

**Licensed In:**

Iowa  
Missouri

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Underwood's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

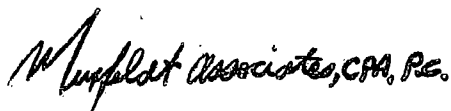
September 8, 2011  
Page Two

To the Honorable Mayor and  
Members of the City Council:

In accordance with *Government Auditing Standards*, I have also issued my report dated September 8, 2011 on my consideration of the City of Underwood's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11, and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2010 (which is not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the two years ended June 30, 2009 and 2008, (which are not presented herein), were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information, included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

M. J. J. Associates, CPA, P.C.





## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Underwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities increased 39%, or approximately \$273,000, from fiscal year 2010 to fiscal year 2011. Capital grants, contributions and restricted interest increased approximately \$106,500 and note proceeds increase \$107,000.

Disbursements of the City's governmental activities increased 54%, or approximately \$424,000 in fiscal year 2011 from fiscal year 2010. Public works, general government and capital projects disbursements increased approximately \$23,000, \$14,000, and \$477,000, respectively.

The City's total cash basis net assets decreased 16% or approximately \$156,500, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$84,600 and the assets of the business type activities decreased approximately \$72,000.

### **USING THIS REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as the Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Funds, such as the Sewer Improvement Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Sewer and Garbage Funds. The Sewer Fund is considered a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from approximately \$686,000 to \$601,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities			
	Year Ended June 30, 2011	Year Ended June 30, 2010	
Receipts:			
Program receipts:			
Charges for services	\$ 40,726	\$ 25,080	
Operating grants, contributions and restricted interest	178,430	155,637	
Capital grants, contributions and restricted interest	109,114	2,553	
General receipts:			
Property tax	304,106	293,877	
Tax increment financing	138,597	123,215	
Local option sales tax	83,453	70,550	
Unrestricted investment earnings	-0-	-0-	
Miscellaneous	854	12,188	
Note proceeds	107,000	-0-	
Sale of property	3,275	9,500	
Total receipts	965,555	692,600	
Disbursements:			
Public safety	159,372	244,484	
Public works	137,970	114,943	
Culture and recreation	22,980	28,358	
Community and economic development	128,010	137,592	
General government	144,403	129,953	
Debt service	137,599	127,722	
Capital projects	476,989	-0-	
Total disbursements	1,207,323	783,052	
Change in cash basis net assets before transfers	(241,768)	(90,452)	
Transfers, net	157,154	(17,637)	
Change in cash basis net assets	(84,614)	(108,089)	
Cash basis net assets, beginning of year	685,855	793,944	
Cash basis net assets, end of year	\$ 601,241	\$ 685,855	

The City's total receipts for governmental activities increased 39%, or approximately \$273,000. The total cost of all programs and services increased approximately \$424,000, or 54%, with no new programs added this year.

Increases to governmental receipts included \$107,000 in note proceeds, approximately \$106,500 in capital grants, contributions and restricted interest, approximately \$13,000 in local optional sales tax and approximately \$10,000 in property taxes.

The cost of all governmental activities this year was approximately \$1.2 million compared to approximately \$783,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 13 and 14, the amount taxpayers ultimately financed for these activities was only \$879,000 because some of the cost was paid by those directly benefited from the programs (\$40,700) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$287,500). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2011 from approximately \$183,000 to \$328,000, principally due to receiving grant proceeds for the sewer capital project.

Changes in Cash Basis Net Assets of Business Type Activities			
	Year Ended June 30, 2011	Year Ended June 30, 2010	
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$ 114,310	\$ 102,639	
Garbage	40,360	39,079	
Operating grants, contributions and restricted interest	-0-	-0-	
Capital grants, contributions And restricted interest	-0-	-0-	
General receipts:			
Miscellaneous	2,450	-0-	
Restricted interest	66	49	
Total receipts	<u>157,186</u>	<u>141,767</u>	
Disbursements:			
Sewer	41,331	83,444	
Garbage	30,644	34,093	
Total disbursements	<u>71,975</u>	<u>117,537</u>	
Change in cash basis net assets before transfers	85,211	24,230	
Transfers, net	<u>(157,154)</u>	<u>17,637</u>	
Change in cash basis net assets	(71,943)	41,867	
Cash basis net assets, beginning of year	<u>284,267</u>	<u>242,400</u>	
Cash basis net assets, end of year	\$ <u>212,324</u>	\$ <u>284,267</u>	

Total business type activities receipts for the fiscal year were approximately \$157,000 compared to approximately \$142,000 last year. The cash balance decreased approximately \$72,000 from the prior year primarily due to transfers to the sewer improvement capital project fund.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$601,241, a decrease of \$84,614 from last year's total of \$685,855.

The General Fund cash balance decreased \$34,009 from the prior year to \$339,028. The fire department purchased a weed truck for \$101,760 and city hall made a \$9,525 down payment on a renovation project.

The Special Revenue Fund, Road Use Tax Fund cash balance decreased \$65,251 to \$168,071. The majority of this decrease is attributable to transfers made to the 2<sup>nd</sup> Street Improvement Capital Project Fund.

The Special Revenue Fund, Urban Renewal Tax Increment Fund was established to account for the Fieldcrest Addition and Eagle Landing subdivisions. The fund's cash balance increased by approximately \$21,000.

The Debt Service Fund cash balance remained at \$4,551 from the prior year. Principal and interest payments were \$137,599, tax receipts were \$84,005, the general fund transferred in \$53,594.

The Capital Projects Fund, 2<sup>nd</sup> Street and Sewer Improvement Capital Projects receipts included a \$109,113 sewer improvement grant, \$107,000 in note proceeds and \$260,876 in transfers from other funds which offset combined project construction costs of \$476,989.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise Fund, Sewer Fund cash balance decreased \$81,659 to \$180,264, primarily due to transfers to the Sewer Improvement Capital Project Fund.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on December 14, 2010 and increased budgeted receipts for a grant and increased disbursements for the purchase of a dump truck and a weed truck. Budgeted disbursements to business type activities increased as a result of the sewer improvement project.

The City's receipts were \$8,398 less than budgeted. This was in part due to delays in the sewer project and, as a consequence, a delay in grant receipts.

The City's disbursements were \$281,738 less than budgeted. This was primarily due to delays in the sewer improvement project. Actual disbursements for the capital projects function exceeded the amounts budgeted due to budgeting the sewer improvement capital project as a business type activity in the budget but recording transactions as a governmental capital projects.



## DEBT ADMINISTRATION

At June 30, 2011, the City had \$710,950 in bonds and notes outstanding, compared to \$714,856 last year, as shown below.

Outstanding Debt at Year-End		
	Year Ended June 30, 2011	Year Ended June 30, 2010
General obligation notes	\$ 710,950	\$ 714,856

Debt was increased by \$107,000, partial proceeds on an anticipation project note for the sewer improvement project. Debt was decreased by a \$110,906 reduction in principal. Interest costs for the fiscal year were \$27,933.

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$710,950 is significantly below its constitutional debt limit of approximately \$1.2 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Underwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. One of those factors is the economy. As a bedroom community of a major metropolitan area, housing continues to move as new families take residence in the City.

These factors were taken into account when adopting the budget for fiscal year 2012. The mill levy decreased from \$14.24103 to \$13.97697, largely due to increased valuations. Disbursements are expected to decrease approximately \$293,000 due to fewer construction projects scheduled for 2012.

If these estimates are realized, the City's budgeted cash balance is expected to decreased approximately \$11,000 by the close of fiscal year 2012.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelly Groskurth, City Clerk, at 218 2<sup>nd</sup> Street, Underwood, Iowa 51576.





## **BASIC FINANCIAL STATEMENTS**

**CITY OF UNDERWOOD**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 159,372	\$ 34,971	\$ 98,783	\$ -0-
Public works	137,970	-0-	78,308	-0-
Cultures and recreation	22,980	1,100	-0-	-0-
Community and economic development	128,010	-0-	100	-0-
General government	144,403	4,655	1,239	-0-
Debt service	137,599	-0-	-0-	-0-
Capital projects	476,989	-0-	-0-	109,114
Total governmental activities	<u>1,207,323</u>	<u>40,726</u>	<u>178,430</u>	<u>109,114</u>
Business type activities:				
Sewer	41,331	114,310	-0-	-0-
Garbage	30,644	40,360	-0-	-0-
Total business type activities	<u>71,975</u>	<u>154,670</u>	<u>-0-</u>	<u>-0-</u>
<b>Total</b>	<b>\$ <u>1,279,298</u></b>	<b>\$ <u>195,396</u></b>	<b>\$ <u>178,430</u></b>	<b>\$ <u>109,114</u></b>

Property taxes levied for:

- General purposes
- Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted investment earnings
- Miscellaneous
- Sale of assets
- Note proceeds
- Transfers
- Total general receipts

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash basis net assets

Expendable:

- Streets
- Urban renewal
- Debt service
- Other purposes

Unrestricted

Total cash basis net assets

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (25,618)	\$ -0-	\$ (25,618)
(59,662)	-0-	(59,662)
(21,880)	-0-	(21,880)
(127,910)	-0-	(127,910)
(138,509)	-0-	(138,509)
(137,599)	-0-	(137,599)
(367,875)	-0-	(367,875)
(879,053)	-0-	(879,053)
-0-	72,979	72,979
-0-	9,716	9,716
-0-	82,695	82,695
(879,053)	82,695	(796,358)
220,101	-0-	220,101
84,005	-0-	84,005
138,597	-0-	138,597
83,453	-0-	83,453
-0-	66	66
854	2,450	3,304
3,275	-0-	3,275
107,000	-0-	107,000
157,154	(157,154)	-0-
794,439	(154,638)	639,801
(84,614)	(71,943)	(156,557)
685,855	284,267	970,122
\$ 601,241	\$ 212,324	\$ 813,565
\$ 168,071	\$ -0-	\$ 168,071
80,372	-0-	80,372
4,551	-0-	4,551
9,219	-0-	9,219
339,028	212,324	551,352
\$ 601,241	\$ 212,324	\$ 813,565

See notes to financial statements.

**CITY OF UNDERWOOD**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 165,298	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	138,597
Other city tax	-0-	-0-	-0-
Licenses and permits	7,420	-0-	-0-
Use of money and property	1,359	-0-	100
Intergovernmental	98,662	78,309	-0-
Charges for services	29,557	-0-	-0-
Special assessments	-0-	-0-	-0-
Miscellaneous	4,604	-0-	-0-
Total receipts	<u>306,900</u>	<u>78,309</u>	<u>138,697</u>
Disbursements:			
Operating:			
Public safety	159,372	-0-	-0-
Public works	-0-	130,291	-0-
Culture and recreation	16,733	-0-	-0-
Community and economic development	10,630	-0-	117,380
General government	103,855	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>290,590</u>	<u>130,291</u>	<u>117,380</u>
Excess (deficiency) of receipts over (under) disbursements	16,310	(51,982)	21,317
Other financing sources (uses):			
Sale of assets	3,275	-0-	-0-
Note proceeds	-0-	-0-	-0-
Operating transfers in	-0-	69,590	-0-
Operating transfers out	(53,594)	(82,859)	-0-
Total other financing sources (uses)	<u>(50,319)</u>	<u>(13,269)</u>	<u>-0-</u>
Net change in cash balances	(34,009)	(65,251)	21,317
Cash balances, beginning of year	<u>373,037</u>	<u>233,322</u>	<u>59,055</u>
Cash balances, end of year	\$ <u>339,028</u>	\$ <u>168,071</u>	\$ <u>80,372</u>
 Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -0-	\$ -0-	\$ 80,372
Debt service	-0-	-0-	-0-
Streets	-0-	168,071	-0-
Other purposes	-0-	-0-	-0-
Unassigned	339,028	-0-	-0-
Total cash basis fund balances	\$ <u>339,028</u>	\$ <u>168,071</u>	\$ <u>80,372</u>

See notes to financial statements.

EXHIBIT B

	Debt Service	Sewer Improvement Capital Project	Other Non-major Governmental Funds	Total
\$	84,005	\$ -0-	\$ 54,803	\$ 304,106
	-0-	-0-	-0-	138,597
	-0-	-0-	83,453	83,453
	-0-	-0-	-0-	7,420
	-0-	-0-	-0-	1,459
	-0-	109,113	-0-	286,084
	-0-	-0-	-0-	29,557
	-0-	-0-	-0-	-0-
	-0-	-0-	-0-	4,604
	84,005	109,113	138,256	855,280
	-0-	-0-	-0-	159,372
	-0-	-0-	7,679	137,970
	-0-	-0-	6,247	22,980
	-0-	-0-	-0-	128,010
	-0-	-0-	40,548	144,403
	137,599	-0-	-0-	137,599
	-0-	394,130	82,859	476,989
	137,599	394,130	137,333	1,207,323
	(53,594)	(285,017)	923	(352,043)
	-0-	-0-	-0-	3,275
	-0-	107,000	-0-	107,000
	53,594	178,017	82,859	384,060
	-0-	-0-	(90,453)	(226,906)
	53,594	285,017	(7,594)	267,429
	-0-	-0-	(6,671)	(84,614)
	4,551	-0-	15,890	685,855
\$	4,551	\$ -0-	\$ 9,219	\$ 601,241
\$	-0-	\$ -0-	\$ -0-	\$ 80,372
	4,551	-0-	-0-	4,551
	-0-	-0-	-0-	168,071
	-0-	-0-	9,219	9,219
	-0-	-0-	-0-	339,028
\$	4,551	\$ -0-	\$ 9,219	\$ 601,241



## CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	\$ 109,846	\$ 40,360	\$ 150,206
Special assessment	573	-0-	573
Miscellaneous	3,891	-0-	3,891
Total receipts	<u>114,310</u>	<u>40,360</u>	<u>154,670</u>
Operating disbursements:			
Business type activities	<u>41,331</u>	<u>30,644</u>	<u>71,975</u>
Total disbursements	<u>41,331</u>	<u>30,644</u>	<u>71,975</u>
Operating income	72,979	9,716	82,695
Non-operating receipts:			
Interest	66	-0-	66
Miscellaneous	<u>2,450</u>	<u>-0-</u>	<u>2,450</u>
Total non-operating receipts	<u>2,516</u>	<u>-0-</u>	<u>2,516</u>
Excess of receipts over disbursements	75,495	9,716	85,211
Other financing sources (uses):			
Operating transfer in	20,863	-0-	20,863
Operating transfer out	<u>(178,017)</u>	<u>-0-</u>	<u>(178,017)</u>
Other financing sources (uses)	<u>(157,154)</u>	<u>-0-</u>	<u>(157,154)</u>
Net change in cash balance	(81,659)	9,716	(71,943)
Cash balances, beginning of year	<u>262,283</u>	<u>21,984</u>	<u>284,267</u>
Cash balances, end of year	\$ <u>180,624</u>	\$ <u>31,700</u>	\$ <u>212,324</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 180,624	\$ 31,700	\$ 212,324
Total cash basis fund balances	\$ <u>180,624</u>	\$ <u>31,700</u>	\$ <u>212,324</u>

See notes to financial statements.





## **NOTES TO FINANCIAL STATEMENTS**

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(1) Summary of Significant Accounting Policies**

The City of Underwood is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general administrative services. The City also provides sewer and garbage utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Underwood has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

**B. Basis of Presentation**

**Government-wide Financial Statements** - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(1) Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation - Continued**

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provision or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**CITY OF UNDERWOOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(11) Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation - Continued**

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Underwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. As of June 30, 2011, disbursements exceed amounts budgeted in the capital projects function

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(1) Summary of Significant Accounting Policies (Continued)**

**D. Property Tax Calendar**

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City as collected on a monthly basis.

**(2) Cash and Pooled Investments**

The City's deposits in bank at June 30, 2011, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled \$813,565 as of June 30, 2011.

**Interest Rate Risk**

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity of general obligation bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes	
	Principal	Interest
2012	\$ 215,149	\$ 30,779
2013	93,956	18,914
2014	71,056	15,746
2015	77,100	13,176
2016	78,689	10,155
2017	55,000	7,350
2018	60,000	5,040
2019	60,000	2,520
Total	\$ 710,950	\$ 103,680

The Code of Iowa requires that principal and interest on general obligation bonds and notes be paid from the Debt Service Fund. However, \$1,240 of general obligation note interest was paid from the Capital Project Fund.

The City has a general obligation debt limit of approximately \$1.2 million which was not exceeded during the year ended June 30, 2011.

General Obligation Street Improvement Note, 2001

On November 20, 2001, the City financed a street paving project through a local bank. The \$170,000 note bears interest at 4.75%, requires 19 semiannual installments of \$10,801, and matures December 1, 2011.

General Obligation Street Improvement Note, 2003

On June 16, 2003, the City financed the 2<sup>nd</sup> Avenue street paving project through a local bank. The \$150,000 note bears interest at 3.86%, requires 19 semiannual installment of \$9,111, and matures June 16, 2013.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(3) Bonds and Notes Payable (Continued)**

General Obligation Fire Rescue Vehicle Note, 2003

On February 28, 2003, the City financed the purchase of a fire rescue vehicle with a local bank. The \$100,000 note bears interest at 4.27%, requires semiannual installments of \$6,155, and matures January 1, 2013.

General Obligation Fire Equipment Note, 2007

On June 21, 2007, the City financed the purchase of a pumper truck with a local bank. The \$174,000 note bears interest at 4.90%, requires semiannual installments of \$12,038, and matures June 1, 2016.

General Obligation Corporate Purpose Bonds, Series 2009

On April 15, 2009, the City issued bonds to finance street repairs to 3<sup>rd</sup> Street and the purchase of an ambulance. The \$495,000 bonds bear interest ranging from 2.25% to 4.20%, requires semiannual installments of interest and annual retirements of bonds (approximately \$65,000 annually), and matures June 1, 2019.

Sewer Revenue Loan Agreement Anticipation Project Note

On October 27, 2010, the City financed the sewer improvement capital project with a local bank. The \$300,000 anticipation note bears interest at 2.25% and matures October 1, 2011. For the year ended June 30, 2011, the City received \$107,000 in note proceeds.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$6,649, \$6,599, and \$5,475, respectively, equal to the required contributions for each year.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides a medical/prescription drug benefits for retirees and their spouses. There are 2 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums of the City and plan members are \$1,028 for family coverage. For the year ended June 30, 2011, the City contributed \$21,282 and the plan members eligible for benefits contributed \$6,383.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount June 30, 2011
Vacation	\$ 2,989
Comp time	1,274
	<u>\$ 4,263</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.



**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$4,446 during the year ended June 30, 2011.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011, is as follows:

Transfer to	Transfer from	Amount
Special Revenue - Road Use	Special Revenue - Local Option	\$ 62,590
Enterprise - Sewer	Special Revenue - Local Option	20,863
Special Revenue - Road Use	Special Revenue - Emergency	7,000
Debt Service	General Fund	53,594
Capital Projects - 2 <sup>nd</sup> Street	Special Revenue - Road Use	82,859
Capital Projects - Sewer Project	Enterprise - Sewer	178,017
Total		<u>\$ 404,923</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(9) Risk Management (Continued)**

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2011 were \$19,433.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage of \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(9) Risk Management (Continued)**

The City also carries workers' compensation insurance purchased from the Iowa Municipalities Workers' Compensation Association, IMWCA. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Urban Renewal Tax Increment Financing Development Agreements**

Shiloh Industries Agreement

On December 10, 2003, the City entered into a development agreement with McKee Contracting. The developer agreed to construct residential infrastructure such as storm sewers, pavement, sanitary sewers, hydrants, and streetlights in the Fieldcrest Urban Renewal Area of the City. The City voided the original agreement and entered into a new agreement with Shiloh Industries. The developer requested and the City agreed to make economic development tax increment payments to the developer each year during the term of the agreement. For the year ended June 30, 2011, the City rebated \$24,008 to Shiloh Industries. The City certifies to the County Auditor by December 1 of each year the following year's tax increment financing request. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa, the City retains 35.1% of the incremental tax receipts for the purpose of providing assistance to low and moderate income households. For the year ended June 30, 2011, the City received \$38,560 of tax increment financing receipts and retained the required percentage per terms of the agreement.

Eagle Landing Development Agreement

On January 9, 2001, the City entered into a development agreement with HLH Development, L.C. The developer agreed to construct infrastructure within the City's Urban Renewal Area South legally described as Eagle Landing Subdivision for the purpose of constructing housing units. In exchange, the City agreed to rebate to the developer semi-annual economic development tax increment payments based upon eligible costs of approximately \$300,785 plus interest of 6% per annum calculated from December 1, 2000. For the year ended June 30, 2011, the City rebated \$72,372 incremental taxes to HLH Development, L.C. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa the City retains 20% of the incremental tax receipts to provide assistance related to housing for low and moderate income families. For the year ended June 30, 2011, the City received \$92,071 of tax increment financing receipts and retained the required percentage per terms of the agreement.



**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(11) Commitments**

The City renewed an agreement for law enforcement services with Pottawattamie County. The fee for the year ended June 30, 2011 was \$12,040.

The City has extended an agreement with M & K Tree Service, Inc. for solid waste collection through 2015 at a cost of \$9.75 (with annual optional incremental fuel increases) per month per household or commercial unit.

**(12) Grants**

On May 11, 2010, the City was awarded a Community Improvements To Increase Economic Stability (CITIES) Grant from the Pottawattamie County Board of Supervisors. The \$199,908 grant requires a 50% match from the City and will finance in part the sewer rehabilitation project. The grant expires October 31, 2011. Grant funds of \$109,113 were received for the year ended June 30, 2011.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF UNDERWOOD**

**BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2011**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 304,106	\$ -0-
Tax increment financing	138,597	-0-
Other city tax	83,453	-0-
Licenses and permits	7,420	-0-
Use of money and permits	1,459	66
Intergovernmental	286,084	-0-
Charges for services	29,557	150,206
Special assessments	-0-	573
Miscellaneous	4,604	6,341
Total receipts	<u>855,280</u>	<u>157,186</u>
Disbursements:		
Public safety	159,372	-0-
Public works	137,970	-0-
Health and social services	-0-	-0-
Culture and recreation	22,980	-0-
Community and economic development	128,010	-0-
General government	144,403	-0-
Debt service	137,599	-0-
Capital projects	82,859	-0-
Business type	394,130	71,975
Total disbursements	<u>1,207,323</u>	<u>71,975</u>
Excess (deficiency) of receipts over (under) disbursements	(352,043)	85,211
Other financing sources, net	<u>267,429</u>	<u>(157,154)</u>
Excess (deficiency) of receipts and other financing sources	(84,614)	(71,943)
Balance beginning of year	<u>685,855</u>	<u>284,267</u>
Balance end of year	\$ <u>601,241</u>	\$ <u>212,324</u>

See Accompanying Independent Auditor's Report.



Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
\$ 304,106	\$ 299,801	\$ 299,801	\$ 4,305
138,597	127,369	127,369	11,228
83,453	84,217	84,217	(764)
7,420	4,375	4,375	3,045
1,525	1,141	1,141	384
286,084	148,572	347,572	(61,488)
179,763	152,720	152,720	27,043
573	-0-	-0-	573
10,945	3,669	3,669	7,276
<u>1,012,466</u>	<u>821,864</u>	<u>1,020,864</u>	<u>(8,398)</u>
159,372	70,700	170,700	11,328
137,970	104,785	178,385	40,415
-0-	-0-	-0-	-0-
22,980	46,100	46,100	23,120
128,010	148,369	148,369	20,359
144,403	167,999	167,999	23,596
137,599	141,900	141,900	4,301
82,859	75,000	75,000	(7,859)
466,105	233,583	632,583	166,478
<u>1,279,298</u>	<u>988,436</u>	<u>1,561,036</u>	<u>281,738</u>
(266,832)	(166,572)	(540,172)	273,340
<u>110,275</u>	<u>-0-</u>	<u>-0-</u>	<u>110,275</u>
(156,557)	(166,572)	(540,172)	383,615
<u>970,122</u>	<u>970,122</u>	<u>970,122</u>	<u>-0-</u>
\$ <u>813,565</u>	\$ <u>803,550</u>	\$ <u>429,950</u>	\$ <u>383,615</u>



**CITY OF UNDERWOOD**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY REPORTING**

**JUNE 30, 2011**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$199,000 and disbursements by \$572,600. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the capital projects function.



## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF UNDERWOOD**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES -  
NON-MAJOR GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue</u>	
	<u>Emergency</u>	<u>Employee Benefits</u>
Receipts:		
Property tax	\$ 3,472	\$ 32,318
Other city tax	-0-	-0-
Total receipts	<u>3,472</u>	<u>32,318</u>
Disbursements:		
Operating:		
Public works	-0-	7,679
Culture and recreation	-0-	6,247
Community and economic development	-0-	-0-
General government	-0-	21,114
Capital projects	-0-	-0-
Total disbursements	<u>-0-</u>	<u>35,040</u>
Excess (deficiency) of receipts over (under) disbursements	3,472	(2,722)
Other financing sources (uses):		
Operating transfers in	-0-	-0-
Operating transfers out	(7,000)	-0-
Net financing sources (uses)	<u>(7,000)</u>	<u>-0-</u>
Net change in cash balances	(3,528)	(2,722)
Cash balances beginning of year	<u>7,679</u>	<u>7,759</u>
Cash balances end year	\$ <u>4,151</u>	\$ <u>5,037</u>
 <b>Cash Basis Fund Balances</b>		
Restricted for other purposes	\$ <u>4,151</u>	\$ <u>5,037</u>
Total cash basis fund balances	\$ <u>4,151</u>	\$ <u>5,037</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

Special Revenue		2 <sup>nd</sup> Street Capital Projects	Total
Insurance	Local Option Sales Tax		
\$ 19,013	\$ -0-	\$ -0-	\$ 54,803.
-0-	83,453	-0-	83,453
19,013	83,453	-0-	138,256
-0-	-0-	-0-	7,679
-0-	-0-	-0-	6,247
-0-	-0-	-0-	-0-
19,434	-0-	-0-	40,548
-0-	-0-	82,859	82,859
19,434	-0-	82,859	137,333
(421)	83,453	(82,859)	923
-0-	-0-	82,859	82,859
-0-	(83,453)	-0-	(90,453)
-0-	(83,453)	82,859	(7,594)
(421)	-0-	-0-	(6,671)
452	-0-	-0-	15,890
\$ 31	\$ -0-	\$ -0-	\$ 9,219
\$ 31	\$ 0-	\$ -0-	\$ 9,219
\$ 31	\$ -0-	\$ -0-	\$ 9,219

**CITY OF UNDERWOOD**  
**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2011**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
Street Improvement Note	November 20, 2001	4.75 %	\$ 170,000
Street Improvement Note	June 16, 2003	3.86 %	\$ 150,000
Fire Rescue Vehicle Note	February 28, 2003	4.27 %	\$ 100,000
Fire Equipment Note	June 21, 2007	4.90 %	\$ 174,000
Corporate Purpose Bonds	April 15, 2009	2.25 - 4.20 %	\$ 495,000
Sewer Revenue Loan Agreement			
Anticipation Project Note	October 27, 2010	2.25%	\$ 300,000

See Accompanying Independent Auditor's Report.



SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 30,705	\$ -0-	\$ 20,383	\$ 10,322	\$ 1,219	\$ 41
51,214	-0-	16,398	34,816	1,825	52
28,825	-0-	11,032	17,793	1,278	-0-
124,112	-0-	18,093	106,019	5,983	433
480,000	-0-	45,000	435,000	16,388	1,281
-0-	107,000	-0-	107,000	1,240	234
\$ <u>714,856</u>	\$ <u>107,000</u>	\$ <u>110,906</u>	\$ <u>710,950</u>	\$ <u>27,933</u>	\$ <u>2,041</u>

# CITY OF UNDERWOOD

## DEBT MATURITIES

JUNE 30, 2011

### General Obligation Notes and Bonds

Year Ending June 30,	Street Improvements Issued November 20, 2001		Street Improvements Issued June 16, 2003		Ambulance Note Issued Feb. 28, 2003	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2012	4.75%	\$ 10,322	3.86%	\$ 17,042	4.27%	\$ 11,672
2013	--	-0-	3.86%	17,774	4.27%	6,121
2014	--	-0-	--	-0-	--	-0-
2015	--	-0-	--	-0-	--	-0-
2016	--	-0-	--	-0-	--	-0-
2017	--	-0-	--	-0-	--	-0-
2018	--	-0-	--	-0-	--	-0-
2019	--	-0-	--	-0-	--	-0-
Total		\$ <u>10,322</u>		\$ <u>34,816</u>		\$ <u>17,793</u>

Year Ending June 30,	Fire Truck Note Issued June 21, 2007		Essential Corporate Purpose Bonds Issued April 15, 2009	
	Interest Rate	Amount	Interest Rate	Amount
2012	4.90%	\$ 19,113	2.25%	\$ 50,000
2013	4.90%	20,061	2.25%	50,000
2014	4.90%	21,056	3.05%	50,000
2015	4.90%	22,100	3.05%	55,000
2016	4.90%	23,689	3.50%	55,000
2017	--	-0-	3.50%	55,000
2018	--	-0-	4.20%	60,000
2019	--	-0-	4.20%	60,000
	--	-0-		
Total		\$ <u>106,019</u>		\$ <u>435,000</u>

See Accompanying Independent Auditor's Report

SCHEDULE 3

Year Ending June 30,	Sewer Revenue Loan Anticipation Project Note Issued October 27, 2010			Total
	Interest			
	Rate	Amount		
2012	2.25%	\$ 107,000	\$	215,149
2013	--	-0-		93,956
2014	--	-0-		71,056
2015	--	-0-		77,100
2016	--	-0-		78,689
2017	--	-0-		55,000
2018	--	-0-		60,000
2019	--	-0-		60,000
Total		\$ 107,000	\$	710,950

**CITY OF UNDERWOOD**  
**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -**  
**ALL GOVERNMENTAL FUNDS**

**FOR THE LAST SIX YEARS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:				
Property taxes	\$ 304,106	\$ 293,877	\$ 270,827	\$ 256,042
Tax increment financing	138,597	123,215	107,394	105,459
Other city taxes	83,453	70,550	90,339	77,247
License and permits	7,420	7,920	10,133	14,064
Use of money and property	1,459	1,592	6,600	16,071
Intergovernmental	286,084	156,597	391,438	203,803
Charges for service	29,557	14,424	16,255	10,954
Special assessments	-0-	80	-0-	461
Miscellaneous	4,604	14,845	35,613	3,946
	<u>\$ 855,280</u>	<u>\$ 683,100</u>	<u>\$ 928,599</u>	<u>\$ 688,047</u>
Total				
Disbursements:				
Operating:				
Public safety	\$ 159,372	\$ 244,484	\$ 48,252	\$ 63,655
Public works	137,970	114,943	95,392	90,412
Health and social services	-0-	-0-	-0-	-0-
Culture and recreation	22,980	28,358	22,519	15,818
Comm and economic dev	128,010	137,592	147,032	160,643
General government	144,403	129,953	126,105	122,462
Debt service	137,599	127,722	107,177	98,114
Capital projects	476,989	-0-	372,950	249,091
	<u>\$ 1,207,323</u>	<u>\$ 783,052</u>	<u>\$ 919,427</u>	<u>\$ 800,195</u>
Total				

See accompanying independent auditor's report.

SCHEDULE 4

	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$	231,541	\$ 212,017	\$ 205,970
	112,347	76,287	98,565
	85,383	90,562	76,458
	5,840	7,936	8,683
	12,858	3,378	1,252
	154,660	129,724	148,400
	9,893	15,763	37,616
	-0-	15	168
	<u>20,544</u>	<u>28,412</u>	<u>10,762</u>
\$	<u>633,066</u>	\$ <u>564,094</u>	\$ <u>587,874</u>

\$	244,708	\$ 165,080	\$ 80,432
	41,769	61,710	96,443
	-0-	-0-	650
	22,324	12,380	23,735
	123,243	107,790	97,029
	116,766	126,730	112,466
	96,850	91,668	125,109
	<u>28,072</u>	<u>85,151</u>	<u>-0-</u>
\$	<u>673,732</u>	\$ <u>650,509</u>	\$ <u>535,864</u>



**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

# MUXFELDT ASSOCIATES, CPA, P.C.

September 8, 2011

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARD

Lonnie G. Muxfeldt  
Certified Public  
Accountant

Harlan Office:

2309 B Chatburn Ave.  
P.O. Box 551  
Harlan, IA 51537-0551

Ph. (712) 755-3366  
Fax (712) 755-3343

Avoca Office:

305 W. High Street  
P.O. Box 609  
Avoca, IA 51521-0609

Ph. (712) 343-2379  
Fax (712) 343-5012

[www.muxfeldt-cpa.com](http://www.muxfeldt-cpa.com)

[firm@muxfeldt-cpa.com](mailto:firm@muxfeldt-cpa.com)

Licensed In:

Iowa  
Missouri

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 8, 2011. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Underwood's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Underwood's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified a certain deficiency in internal control over financial reporting I consider to be a material weakness.

Continued . . .



September 8, 2011  
Page Two

To the Honorable Mayor and  
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Underwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-11 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Underwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Continued . . .



September 8, 2011  
Page Three

To the Honorable Mayor and  
Members of the City Council

The City of Underwood's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City of Underwood's responses, I did not audit the City of Underwood's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Underwood and other parties to whom the City of Underwood may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Underwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

 Murphy & Associates, CPA, P.C.



**CITY OF UNDERWOOD  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES**

**I-A-11 Segregation of Duties**

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city clerk and a part time deputy clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part II: Other Findings Related to Required Statutory Reporting:**

**II-A-11 Certified Budget** - Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the capital projects function. In addition, disbursements exceeded amount budgeted in the capital projects function before the budget was amended on December 14, 2010. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be monitored and amended timely in the future, if applicable.

Conclusion - Response accepted.

**CITY OF UNDERWOOD  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011**

**Part II: Other Findings Related to Required Statutory Reporting (Continued):**

II-B-11 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2011 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Tenningkeit, Planning & Zoning, Owner of Bluffs Electric	Electrical work	\$ 3,172
Robert Pingel, Board of Zoning, Owner Pingel Construction	Parts	\$ 85
James Pingel, Councilor	Generator Reimbursement	\$ 1,189

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Planning and Zoning Committee member may represent a conflict of interest since total transactions with the individual were greater than \$2,500 during the fiscal year. However, no particular job exceeded \$2,500 during the fiscal year.

II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-11 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

II-G-11 Deposits and Investments - I noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**CITY OF UNDERWOOD  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011**

**Part II: Other Findings Related to Required Statutory Reporting (Continued):**

- II-H-11 Unsubstantiated Disbursements - It was noted that not all debit/credit card charges were substantiated.

Recommendation - Disbursements should be substantiated with appropriate documentation.

Response - Debit/credit card charges will be appropriately substantiated in the future.

Conclusion - Response accepted.

- II-I-11 Payment of General Obligation Notes - Interest on the Sewer Revenue Loan Agreement Project Anticipation Note was paid from the capital projects fund rather than the debt service fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation - The City should transfer from the capital projects fund to the debt service fund for future funding contributions. Payment of interest should then be disbursed from the debt service fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

